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Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the ~~European~~ automobile industry

Rapporteur: Mr A. BONACCINI

On 7 July 1980 a motion for a resolution (Doc. 1-280/80) on a European policy for the motor industry, tabled by Mr PININFARINA pursuant to Rule 25 of the Rules of Procedure, was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on External Economic Relations for its opinion.

On 10 July 1980 a motion for a resolution (Doc. 1-311/80) on the future of the car industry, tabled by Mr SARRE and others pursuant to Rule 14 of the Rules of Procedure, was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on External Economic Relations and the Committee on Social Affairs and Employment for their opinions.

The Committee on Economic and Monetary Affairs appointed Mr BONACCINI rapporteur on Doc. 1-280/80 at its meeting of 16 July 1980 and on Doc. 1-311/80 at its meeting of 23 September 1980. It decided to deal with the two motions in a single report on the European automobile industry.

It considered the report at its meeting of 24/25 November and 1/2 December.

At its meeting of 1/2 December it adopted the motion for a resolution by 19 votes to 0 with 1 abstention.

Present: Mr Delors, chairman; Mr de Ferranti, vice-chairman, Mr Deleau, vice-chairman; Mr Bonaccini, rapporteur; Mr Beazley, Mr Beumer, Mr von Bismarck, Mr Caborn, Mr Carossino (deputizing for Mr Piquet), Mr Damseaux (deputizing for Mr Combe), Mr Delorozoy, Miss Forster, Mr de Goede, Mr Leonardi, Mr J. Moreau, Mr Nyborg, Mr Petronio, Sir Brandon Rhys-Williams, Mr Spinelli (deputizing for Mr Fernandez) and Mr von Wogau.

The opinions of the Committee on External Economic Relations and the Committee on Social Affairs and Employment are attached.

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A

The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the European automobile industry

The European Parliament,

- having regard to the motion for a resolution (Doc. 1-280/80) tabled by Mr Pininfarina pursuant to Rule 25 of the Rules of Procedure and the motion (Doc. 1-311/80) tabled by Mr Sarre and others pursuant to Rule 14 of the Rules of Procedure,
- having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on External Economic Relations and the Committee on Social Affairs and Employment (Doc. 1-673/80),
- having regard to the key importance of this sector in European industry and to the economy as a whole,
- having regard to the disturbing loss of markets both within and outside the Community as a result of the trade offensive by aggressive non-Community industries,
- having regard to the serious effects this is having on employment, income distribution and the general economic health of the Community, particularly for certain regions and in sectors linked to or dependent on the car industry,
- convinced that the car industry can instil new dynamism and growth into the European economy and that appropriate Community measures could prove very effective in this field,

Community strategy

1. Urgently calls for the formulation, at Community level, of a strategy for the automobile industry that will enable it to take advantage of the size of the Community market, the economic and political strength of the Community and its extensive trading links with the rest of the world;
2. Considers that the strategy adopted should be such as to allow the attainment of the fundamental objectives, which are to increase the productivity of the European automobile industry and to strengthen its competitiveness on the world market;
3. Calls upon the Commission when fulfilling its executive functions to grant the necessary priority to studying and drafting proposals relating to the automobile industry;

4. Urgently calls for close cooperation between the national governments and the Community institutions with a view to creating the basic conditions necessary for improving the common market, and insists on the need for steps to be taken to achieve greater harmonization of the laws of the Member States, the coordination of national aid schemes and the elimination of technical barriers to trade;
5. In order to speed up the adoption of the most appropriate common measures, requests the Commission to conduct, as rapidly as possible, a survey of the effects of Community regulations on energy saving, safety and pollution;
6. Calls for a greater investment of private risk capital, and considers that any Community intervention should be on the basis of the coordination of national programmes and with particular use being made of instruments such as the new Community loans;
7. Asks its committee to monitor continuously developments in this sector and to draft a report on this subject periodically;

External trade policy

8. Requests the Commission to pay particularly close attention to further developments in the talks between the representatives of the European and Japanese manufacturers. It should see to it that the internal market is afforded adequate protection, in particular through its contacts and negotiations with the third countries concerned. The purpose of this is to ensure improved market access in particular through the removal of spurious obstacles to trade, under conditions of effective equality as well as balanced exchange rates, especially against the yen and with fewer divergences in matters affecting industrial relations. If these contacts and negotiations fail to secure the necessary results, the Community must quickly adopt the measures that are essential for the legitimate protection of its market;
9. Hopes that the Council will adopt the Commission proposal for a directive introducing a special procedure for Community certification of industrial products from third countries;
10. Considers that a thorough appraisal should be made of the implications for the Community automobile industry of the enlargement of the Community and calls for an improvement in the trade balance between Spain and the EEC in this sector;
11. Enjoins the Community to examine and take account of the implications of the buy-back agreements concluded with third countries that manufacture cars;
12. Considers that the Community's competition policy must be viewed not merely in an intra-Community context, but also in the light of the need to ensure that undertakings are able to compete effectively and on an equal footing with third country manufacturers;

Problems associated with the common market

13. Urgently calls upon the Council to adopt the directives designed to eliminate technical barriers to trade in motor vehicles and the proposal concerning a special procedure for Community certification of industrial products from third countries; points out that, once all the above proposals have been adopted, a Community type-approval certificate for motor vehicles will effectively be possible; such a type approval procedure will give the Community an important bargaining position within the new GATT agreements for reciprocity on non-tariff barriers;
14. Asks that genuinely effective measures be taken to harmonize the existing legislation of the Member States concerning the technical characteristics of motor vehicles, especially from the point of view of inspection and control, making allowance for likely developments in the 1980s;
15. Calls on the Commission to ensure that competition is maintained in this sector so that consumers in the Community are assured of a supply of vehicles at appropriate prices;
16. Reaffirms the need for the current work on the harmonization of the laws relating to car insurance to be brought to a rapid conclusion and calls for an analysis of the different fiscal provisions at present applicable to the sale and the use of cars in the various Member States;
17. Points out that removing barriers within the Community makes it easier for smaller specialist firms in assembling, components and research and development to flourish and thereby create jobs and contribute to the competitiveness of the entire industry;

Research and development

18. Expresses concern at the fact that Community research and development activity may not be up to the level of that of the leading third country competitors, and considers that the Community should encourage and assist such activity, while also coordinating national research projects and playing a direct part in 'non-competitive' research directly linked to the industry as well as in basic research in the sector;
19. Calls for a strengthening of the Community's role in the promotion of research into the fundamental problems and subsequent development of electronic technology;

20. While reaffirming the importance of all aspects of research, lays particular stress on research which is concerned with energy saving, the use of energy sources other than hydrocarbons and the search for alternative materials;
21. Points out that the requisite technological innovations must also be directed towards increasing the safety of consumers and workers and towards improving both the working and the natural environment;
22. Calls for thorough studies of the precise costs involved in the pursuit of these three objectives and of the combination of priorities that may prove to be necessary;

Industrial structure

23. Urgently calls for an end to be put to the fragmentation of the Community industries, by the adoption of measures aimed at encouraging fuller cooperation between companies through joint programmes covering research, experimentation and components and motor vehicle production as well as other forms of collaboration and joint ventures within the Community and with undertakings in third countries, such as would help improve European production and deserve to be approved and supported. While concentrations may also have their drawbacks, they should positively be encouraged in suitable cases (for example, in certain sectors of the components industry), when the result would be substantial economies of scale and a better organization of the production process;
24. While stressing the Community's openness to foreign investment, draws the attention of the Community to the effects of foreign investment within the Community and of Community investment abroad;
25. Believes that foreign investment within the Community can in particular help to create new jobs but could also lead to Europe's technological dependence being increased, and calls upon the Commission to guard against this possibility; calls attention to three essential conditions that must be considered jointly in cases of joint ventures with third country undertakings: the Community firm must not be weakened to such an extent that there is reason to fear that it may be absorbed by its partners; its capital share must represent a preponderant proportion of the value of the final product; the intervention of the partner company must not be purely commercial in nature;

26. Welcomes on principle investments by European automobile manufacturers in third countries and considers it necessary for the Community to lend support to such efforts on a long-term basis by concluding capital protection agreements with these countries;
27. Reaffirms the need for new programmes of technological development on a broad scale, based squarely on automation techniques and the use of robots, and to identify the best methods of organizing production and of simplifying component assembly processes and stockpiling policies. These programmes and the studies preceding them must be promoted, encouraged and adequately supported, having due regard for the possible social consequences;
28. Requests the Commission to ascertain what practical scope there is for an agreement between producers of components, insurance companies and organizations of vehicle repairers to expedite, standardize and reduce the cost of the procedures followed for repairing vehicles and settling claims;

Social aspects

29. Recognizes that the adjustment of the automobile industry to new circumstances will have serious social implications and stresses the need for the simultaneous implementation of comprehensive measures to cope with them in a satisfactory manner;
30. Considers that the Community should play an important part in this area, by evaluating the effects on employment and working conditions of restructuring schemes, of organizational changes in the production process and of technological innovation, especially increased automation, on the production line,
31. Calls for consultations with the social partners with a view to diagnosing the problems in the sector, comparing information, facilitating cooperation at European level, especially in the components sector, and formulating the training and redeployment policies necessitated by developments on the automobile market;
32. Believes that the Community will be able to make a special contribution in various fundamental areas by:
 - (a) facilitating the flow of preliminary information to the trade unions and to the whole work-force, and the joint assessment by the social partners of employment prospects and of changes in conditions of employment;

- (b) adopting at an early date the guidelines envisaged for reorganizing and adjusting working hours and, in particular, for introducing a flexible retirement policy;
 - (c) adopting at the same time - in particular with the help of the Social Fund - measures for professional training and retraining, etc., with a view to facilitating mobility on the labour market;
 - (d) expediting and supporting those measures that are essential at regional level to prevent very serious damage to the areas affected by these measures and the deterioration of their industrial structures and to ensure that account is taken, in any allocation of resources, of the regional imbalances that persist within the Community;
33. Urgently calls for an increasingly modern and effective public transport policy which will help to make substantial improvements in traffic systems, especially in the large conurbations, and which, by promoting a wider range of transport facilities, will allow people to make a freer and more rational choice and guarantee smoother passenger traffic flows and less use of the expensive motor car;
34. Instructs its President to forward this resolution and the attached explanatory statement to the Commission and the Council.

EXPLANATORY STATEMENTINTRODUCTION

1. The automobile industry is clearly a key industry for the Community, both in its own right and in its wider impacts on other industries and the economy in general.
2. It is currently the cause of considerable concern within the Community. Recently, two hearings were held by committees of the European Parliament on the current problems faced by the European automobile industry: one by the Committee on External Economic Relations on 22 September, the other by the Committee on Economic and Monetary Affairs on 20 October. Representatives of the European manufacturers' associations and trade unions participated in both hearings.
3. What emerged most clearly was that there were shorter term and longer term issues. In the short term a cyclical downturn within the industry itself, and within the economy in general, combined with a greatly increased Japanese offensive on the European market, is having a severe impact on the industry. The immediate problems, therefore, are what to do about the worsening situation in this sector and how to cope with the increase in international competition and the social consequences that are now becoming apparent.
4. The immediate crisis, however, is also focussing attention on the current structure of the Community automobile industry and whether it will be able to compete effectively in the longer term at a time of energy constraints, and of slower underlying growth in demand and when competition, not just from Japan but from a potentially revived American industry and from new producers in Eastern Europe and developing countries is likely to intensify. The longer term problems are how best to improve Community productivity and maintain or expand competitiveness and the nature of the respective roles that need to be played by the industry itself, by national governments and by Community institutions.
5. But if the nature of the problems emerged clearly from the hearings the same could not be said of specific proposals for either the shorter or longer term sets of issues.

6. This report examines the questions outlined above and reviews the measures that might be taken at Community level. The first section outlines the importance of the industry for the Community, the second looks at the changes affecting the industry worldwide and more specifically within the Community, the third at the structural problems facing the Community and the fourth some of the policy choices that might be taken and the areas where more rigorous study is needed. It should be pointed out that the report makes few specific references to the commercial vehicle sector, nor does it specifically examine the situation of the smaller specialized manufacturers.

I. IMPORTANCE OF THE AUTOMOBILE INDUSTRY FOR THE COMMUNITY

7. Concern about the automobile industry within the Community is closely linked to its size and to its importance within the Community. It is this that ensures that, even in the absence of long term structural problems, shorter term or cyclical trends can have such severe economic and, in particular, employment impacts.
8. The Community in 1979 was the world's largest vehicle producer, in first place by quite a long way in the production of private vehicles though only in third place (behind Japan and the United States) in the production of commercial vehicles.
9. The industry is vital in a number of respects:
- nearly 2 million employees are directly employed in the automobile industry within the Community; some six million in all have jobs linked to motor vehicles;
 - between 5% and 8% of total industrial production within the Community is attributable to the automobile sector;
 - automobile exports account for between 8% and 12% of the industrial exports of the different Member States¹.
The foreign exchange earnings are very large.
10. Apart from the direct effects, the automobile industry has a broad multiplier effect within the economy as a whole, on both upstream and downstream activity, on goods and services. Energy and raw materials suppliers, the suppliers of steel, plastics, glass,

¹ The figures quoted above are derived from the Commission staff paper 'the European Motor Vehicle Industry: Information on the current situation' (SEC (80) 1381)

various component manufacturers large and small, automobile dealers and the transport industry as a whole, are all affected. Research in West Germany ¹ indicates that 'an increase in final demand for automobiles by, say, 1 million units of account results in a rise of total output in the German economy (including the automotive industry) by 2 million units of account. This is an above-average value if compared with other manufacturing industries'.

11. The share in total output of a number of West German industries of products and services supplied directly and indirectly to the automobile industry has been estimated ² as around 25% for the rubber and asbestos industry, around 25% for steel processing (investment goods), around 15-20% for iron and steel (basic goods) around 10% each for glassware and for non-ferrous metals and between 5 and 10% for mechanical engineering, electrical engineering and synthetics.
12. The Commission's study estimates that the car industry uses 20% of the total Community production of steel.
13. 'Every car made in Britain contains around £54 worth of ICI products - fibres for seat covers, paint for the body, plastics for the hoses and soda ash in the glass. The recent surge in car imports has cost ICI £20 million in lost sales'. (Sunday Times - 26 October 1980). A recent study of Ford UK forecasts that 500,000 to 800,000 jobs could be lost in the space of a few years if the decline of the industry could not be halted.
14. As regards downstream activity, the Commission's recent working document ³ points out that 'Europe has 500,000 motor vehicle trade and maintenance undertakings, including 50,000 agents, employing perhaps about 2,900,000 people'.

¹ Input - output study by R. Pischner quoted in Koopman 'The challenges of the future and adjustment strategies of European car makers', page 4.

² Koopman (page 4) quoting Diekmann

³ 'Information on the current situation' - 13 October 1980 (SEC(80) 1381)

15. A further point of emphasis is that certain cities and regions are particularly dependent on the industry, and are disproportionately affected in periods of trouble, a good example being Turin.
16. The automobile industry has been at the centre of European industrial growth in the post-war period. In a number of cases it is also strongly linked with national prestige and with national economic performance. It is not surprising that recent changes within the industry are currently the subject of so much debate. However, there is every reason to feel confident that the car industry can instil new dynamism and growth into the European economy. Appropriate Community measures could prove very effective in this respect.

II. CHANGES WITHIN THE INDUSTRY

(i) Changes over the last few years

17. In recent years a number of changes have taken place, with regard to the nature of demand, in the location of automobile production, the degree of interdependence between markets, the extent of concentration and cooperation, technological changes, rises in the price of energy, increased emphasis on safety and on the environment and on improving working conditions, and the increased role of governments. These changes need to be briefly recalled.

changing nature of demand

18. For a long period there was rapid growth within the industry, based on a very rapidly rising level of demand. As the percentage of households owning cars has risen the nature of the demand has changed increasingly from first time purchasing to replacement purchasing. This trend is already well advanced within the Community where in 1978 there were almost 300 cars per 1000 inhabitants though not as far as in the United States where a level of over 500 cars per 1000 inhabitants has been reached.
19. This trend has several consequences. Firstly, the rate of growth is less dynamic in a replacement market than in a market characterised by first time purchasers. Secondly, it is more responsive to cyclical factors in that households are more likely to defer replacement purchases during periods of economic slowdown or recession. Finally, rather than all car producers sharing, if unequally, in a rapid increase in the volume of sales, the struggle for market shares becomes more important as an individual car producer's success depends more and more on making 'conquest sales' from rival producers.

20. While the structural change in the nature of demand is evident within all developed countries' economies, it is less clear when and if a point of 'saturation' will be reached when all households who want a car or a certain number of cars will actually have them. The effects described in the paragraph above would clearly be accentuated if such a point was reached. There is currently considerable speculation and differences of opinion on when this point will be reached, at least in the market for private vehicles. The concept of 'saturation' has less validity, however, in the market for commercial vehicles.
21. It is argued by some that there is still considerable scope for an increase in the percentage of Community households owning a car. It is also, however, evident that the number of cars per 1000 inhabitants within the Community is unlikely to reach the level attained in the United States, Canada or Australia, for reasons of sheer physical space. For similar reasons the level of car ownership is anticipated to remain at a lower level within Japan than in the Community.
22. It is theoretically possible that the market for private vehicles could grow exponentially in that households may want to go on purchasing more and more additional cars. The trend towards households owning more than one car is likely to continue; but limits will be reached. Without entering into too abstract an argument, it is likely that a point will be reached when most families will have the number of cars they want and when strains on the family budget, due not just to the cost of purchase but also to taxation, running costs, the cost of maintenance, the price of petrol and the diseconomies of car ownership such as overcrowding of the roads, parking problems etc., will cause such limits to be reached.
23. The market for commercial vehicles is of a different nature, though some of the diseconomies mentioned above will also apply. Government policy towards competing transport systems will also be decisive. The rate of growth in demand, however, is likely to decline as well.
24. The nature then of the automobile market within the Community is changing and adaptations to a slower rate of growth will have to be made. Nevertheless, it is worth putting overly pessimistic forecasts into perspective; demand will continue to grow and technological change, for instance in dramatically

improving energy conservation, could make a replacement market a more vigorous one than expected, with old models becoming obsolete much more rapidly than before. It is also worth recording that demand in the sector eventually recovered more strongly from the 1973 oil shock than many had anticipated.

25. Finally, the rate of growth in the market will be different in different parts of the Community. In particular, enlargement will bring into the Community countries where far fewer households have cars and where the potential for growth is far greater. This is even more the case in many developing countries and increased emphasis will have to be put on meeting demand in these new markets.

changes in the structure of the industry

26. The last few years have seen major changes in the structure of the industry itself, in terms of the very differing performance of the older producers and the rise of new products, the increasingly global character of the industry, the increasing degree of concentration and spread of cooperation agreements and to a lesser extent, growing diversification into other sectors.
27. Now, as before, the bulk of world automobile production takes place within the Community, in the United States and in Japan, but the fortunes of the three major producing areas have varied greatly. The American industry was particularly badly hit by the 1973 oil crisis for which it was the least well equipped to face in terms of its existing range of models. It is now having to invest massive sums to restructure itself and to 'down-size' the cars that it produces. The Japanese industry has expanded extremely rapidly, and in commercial vehicles is now the largest producer. Its rate of growth of production has increasingly outstripped the potential of its domestic market and it has become an increasingly major exporter. The Community industry has, in general, performed strongly but this hides great differences between the performance of the different Community countries, with a general strengthening of the position of German and French producers and a weakening of the Italian and, in particular, United Kingdom producers. Part of the blame here obviously lies with individual companies that have failed to modernize.
28. Production in other regions has developed considerably. Spanish production capacity has greatly increased, as has that of the Eastern European countries. Certain developing countries such as Brazil, Mexico and South Korea, are creating the nucleus for

what could well be major industries of the future, though estimates differ as to the degree to which they will rapidly become major competitors.

29. The above changes have to be seen in the context of the increasingly global character of the automobile industry, and the increasing inter-penetration of the major producing firms. American firms were the first to establish overseas production capacity on a large scale when they moved into the European market to the extent that in a certain sense their European subsidiaries became the first truly 'European' car firms. As the need to manufacture within the major markets rather than merely export to them has become more apparent, European firms have started producing in the United States, Japanese firms are beginning to find partners within Europe, and European, Japanese and American firms have established many more operations in developing countries.
30. The reasons for these moves are varied, ranging from a search for a cheaper manufacturing base to the need to protect a manufacturer's position in a market around which new barriers are being created. It is important to point out, however, that dispersion of 'production' can cover many different things ranging from the manufacture of components through the assembly of cars in knocked-down or semi knocked-down forms to full scale production, not to mention the main centres where design decisions are made.
31. The implications of these different forms of dispersion of activity vary greatly but one thing is clear, that automobile firms' activities are being spread over an increasing number of countries, in terms of sourcing of components, of assembly and of production itself.
32. This process of internationalization is well illustrated by the development of the so-called 'world car' which has been defined as a vehicle with the 'same basic design and as many common or interchangeable parts as possible, and which will compete successfully in the world's major automotive markets, modified and tuned to their particular requirements'.¹ Indeed, it might well be more accurate to talk instead of 'world components'.

¹ Mr A. Cunningham, Vice-President for General Motors Overseas Operations, quoted in Financial Times survey on the 'European Motor Industry' (8 October 1979)

33. The process of concentration has also somewhat intensified over the last few years, particularly in the Community car industry. This has been marked in a number of countries such as the United Kingdom with British Leyland, in Italy with Fiat, in Germany with Volkswagen and perhaps, most strikingly, in France with Peugeot/Citroën/Talbot.
34. It is worth noting, however, that with a few exceptions such as Iveco, the process of concentration has been primarily national in scope and successful transnational mergers have been rare.
35. More striking, perhaps, has been the development of cooperation agreements and joint ventures of various types, for instance for the manufacture of engines and other components.
36. Finally, there has also been a certain amount of diversification of automobile companies' activities into other industrial sectors. Links with the increasingly related electronics industry are one area where this process is likely to develop (Volkswagen).

central impact of energy crisis

37. The most striking change in recent years affecting the Community automobile industry has been the rise in the price of oil from 1973 onwards, and its subsequent impact on the economy. The automobile industry was clearly hurt both directly and indirectly and there was a sharp cut-back in demand. Passenger car output subsequently fell from 11.5 million units in 1973 to 9.9 million in 1974 to 9.3 million in 1975. The resilience of the industry was well demonstrated by the recovery that followed and car output had again risen to 11.2 million units in 1977. 1979 was a record year for passenger car demand in Western Europe and commercial vehicle output, which had suffered less, also expanded rapidly.
38. Nevertheless, in spite of the recovery, the energy crisis has led to a fundamental structural shift and to a much greater emphasis on energy conservation. The need was especially marked in the United States, where mandatory energy conservation targets were established,¹ but is vital among manufacturers everywhere. So far,

¹ In 1977 regulations were imposed that average petrol consumption for all the cars made by each manufacturer would have to be at least 18 miles per gallon, and would have to reach a figure of 27.5 miles per gallon by 1985. Heavy fines would be imposed in cases of failure to comply.

however, the only approach adopted within the Community has been one of voluntary commitments by manufacturers.

increased emphasis on safety and the environment

39. Another important development affecting the automobile industry, though less suddenly than the energy crisis, has been the increased level of public interest in questions of safety and environmental pollution. Particularly in the latter field, there has been greater regulatory emphasis in the United States and Japan than in the Community. The early and mid 1970's saw particular concern in this area ¹. It has been estimated that in Japan around 40% of total research and development undertaken by Japanese car producers has been absorbed by expenditure for emission control devices ².
40. More recently, however, as the economic slowdown has intensified, there has been increasing concern about the costs of the strict new controls in these areas and the possible conflicts with other fundamental objectives such as energy conservation (certain emission control devices add considerably to the weight of a car and increase fuel consumption).
41. However, while there is agreement that an adverse impact on costs exists there has been little agreement on how much. It is interesting to note that 'a recent study prepared by the U.S. Environmental Protection Agency indicates that to meet the emission standards set by the Clean Air Act of 1970 a retail price increase of up to \$275 is necessary per car. The automakers, on the other hand, indicate the jump will be \$400 to \$500 per car'. ('Automotive Industries - 11 June, 1977, page 21, quoted in Interfutures project')

¹ The United States has established specific targets for pollution control, for instance for the reduction of carbon monoxide and nitrogen oxide levels, and catalytic converters have had to be added to cars to meet the new targets. Japan adopted rigorous new emission control standards in 1978 with emission of nitrogen oxides and hydrocarbons by new passenger car models not being permitted to be higher than 0.25 per km. after April 1978, and with upper limits for the emission of carbon monoxide set at 2.10 g/km.

² Interfutures research project - phase C 'Long term perspective of the world car industries' February 1978, page 2.

changes in production technology

42. While no major changes in production technology have appeared to revolutionize the industry in the last few years, the increased impact of automation has been considerable, such as the use of 'robots' or 'programmable controllers', particularly marked within Japanese industries but also increasingly widespread in Community firms, including Fiat and British Leyland.
43. The implications of increased automation for levels of employment and working conditions are still not at all clear and are going to be of vital importance.

the working environment

44. The automation just referred to will adversely affect the immediate employment situation, but will also have beneficial effects. While the employment effects give rise to concern, productivity levels will increase considerably. A further impact, is that it will also respond to employee demands for an improvement in the working environment, with a reduction in a number of unattractive jobs.
45. Concern about the nature of the working environment has developed considerably in the last few years. The problems in this area are reflected in particular by the high levels of absenteeism characteristic of the automobile industry in certain Community countries.
46. A few innovative attempts have been made to improve the quality of the working environment, the most well-known example being the production line experiment at Volvo. This has not been widely copied, however.
47. More recently, emphasis has been placed more directly on job-creation measures, such as shortening the working week. The impacts that such measures might have on productivity and the trade-offs that might be needed are currently the subject of much controversy.

increased role of governments

48. Another important trend has been the increased role of governments, often involving a departure from fundamental policy. The automobile industry is so important, and the employment consequences so major, that governments have been induced to play a greater role in encouraging mergers, in providing finance and incentives for new

investment and in helping to bail out companies which have got into trouble such as Chrysler in the United Kingdom and in the United States, and Volvo in the Netherlands.

(ii) Recent changes

49. After a strong recovery after the difficult period of 1974-75, the industry has again entered a period of crisis which has again made it the focus of attention. The effects have been particularly strong in the United States, but have also left their mark within the Community. There has been a considerable decline in the volume of sales and it is anticipated that new registrations of cars in Western Europe may fall by around six to eight per cent. The impacts on employment have been very variable but job losses, particularly temporary lay-offs of uncertain duration, have been considerable. In Italy, in particular, the difficulties at Fiat have led to considerable tension.
50. The economic slow-down has clearly been greatly accentuated by the rapid rise in oil prices, what is becoming known as the 'second oil shock', and this has clearly had a particularly marked effect on the automobile industry.
51. It is this generally poor situation which has accentuated concern about the rapid rise of market penetration by Japanese manufacturers which has been the most striking feature of recent months. Japanese manufacturers' share of the Community market has been rising steadily since the early 1970's (e.g. in the United Kingdom from 4.8% in 1973 to 10.4% in 1979, in the Netherlands from 11.4% to 18.9%, in Belgium/Luxembourg from 12.5% in 1973 to 18% in 1979. However, this has accelerated greatly in recent months so that by July/August 1980 Japanese import penetration had risen from 10.4% to 19.7% in the United Kingdom (though it has since fallen back), from 18.9% to 31% in the Netherlands and from 18% to 29.2% in Belgium/Luxembourg. In France's more restricted market, penetration over the same period had risen from 2% to over 4% and in Germany's open market from 5.4% to 13.1%: the Japanese share of the German market had been under 2% as recently as 1977.

52. The implications of this increase in penetration at a moment of cyclical slow-down are clearly severe. With respect to employment, for instance, one of the witnesses at the hearing organised by the Committee on External Economic Relations ¹ estimated that the potential loss of jobs within Europe as a whole attributable to the Japanese advance might be of the order of 30-35,000 jobs.

III. PROBLEMS CURRENTLY FACING THE EUROPEAN CAR INDUSTRY

strengths and weaknesses

53. A common theme in certain discussions on the state of the Community automobile industry is whether there is a cyclical or structural crisis. Without getting involved in what is ultimately a sterile argument, it is clear that the cyclical downturn combined with an intensifying competitive threat from other manufacturing countries, notably the Japanese, have put the spotlight on certain structural weaknesses within the Community automobile industry.
54. Before examining these weaknesses, however, a number of qualifying comments need to be made. Firstly, it should be pointed out that the Community automobile industry retains a number of very considerable strengths. Its engineering skills (e.g. the development of front-wheel drive) are still outstanding, consistent with the often more demanding conditions on European than on American or Japanese roads. In terms of cars designed to meet current market conditions, in particular with regard to fuel consumption, European cars have had a marked advantage over American cars and, although complacency should be guarded against, they still appear to have a lead in quality over most Japanese cars.
55. A second qualifying comment concerns the very great differences between the situations of the different manufacturers within the Community. As a general comment, the weaker Community economies, Italy and the United Kingdom, have had the weakest car industries as well, where levels of growth and of productivity have lagged behind or even declined. Even within these countries the position of different manufacturers has been uneven (Ford of Britain for instance, has done consistently better than British Leyland).

¹
Miss Ouin (CCMC)

In Germany and France, however, the industry, at least until recently, has performed very well.

56. Finally, pessimistic forecasts and projections of current trends, have to be examined very critically. As pointed out before, the severe situation of 1974 and 1975 was followed by a strong recovery and serious positions faced by industrial firms have been reversed, as was the case with Volkswagen in the early 1970's. Forecasts in studies carried out as recently as 1977 and 1978 are already outdated. The very rapid nature of change in this sector means that great caution is needed in examining the future.
57. Nevertheless, certain common structural problems faced by the Community automobile industry are apparent. One such problem is the fragmented nature of the European industry. There are 12 main manufacturers and around 300 component manufacturers in Europe, for instance, compared with 3 major manufacturers and 30 component manufacturers in the United States. Compared to the homogeneous Japanese (where there is not even any foreign manufacturing presence) and American industries, the Community industry consists of a series of national industries with a major and sometimes dominant role in their own national markets, but far weaker in other Community countries. It is a commonly observed irony that the most 'European' vehicle firms are Ford and General Motors.
58. With a few exceptions, such as that of Iveco, attempts at outright mergers over national boundaries have been thwarted or not been notably successful. (This has applied to the components area as well as to cars)
59. There is considerable recent literature on required economies of scale in bulk vehicle manufacture. The Commission's recent paper cites a production level of 1 million cars per year as a 'survival threshold' and points out that only Peugeot, Volkswagen, Renault and Fiat surpass this level.¹ The paper by Koopman² states that 'it is widely accepted that the volume car producers should have an annual output of at least 2 million units split between a limited number of basic models in order to utilize

¹ Op. Cit. page 12

² Op. Cit. page 42

economies of scale to a full extent'. Whatever minimum and optimal levels are actually required in differing circumstances, it is clear that certain economies of scale are indeed crucial.

60. The costs of new technological developments, for instance of new components, point out the need for scale and the importance of merger or cooperation. Development of a new engine may well cost about \$300 million and of a new gearbox \$160 million ¹.
61. A second area of concern, at least with regard to Japanese industry, are the differences in levels of productivity. According to the study from the Commission itself, quoting vehicle manufacturers' figures ², Japan produced about 45 vehicles per employee in 1978 compared to a European average of 12 cars per employee (itself masking considerable differences in productivity within the Community).
62. As the vehicle manufacturers in particular have pointed out, figures comparing productivity, and making a mechanistic comparison between number of cars produced and numbers employed, should be treated with considerable caution. 'D'un pays à l'autre, d'une firme à l'autre, les programmes de production présentent des structures très différentes, notamment en ce qui concerne la plus ou moins grande intégration de la fabrication des composants. Les produits réalisés sont également difficilement comparables, depuis de petites voitures "populaires" jusqu'à de grosses voitures très sophistiquées, et les "product mix" varient considérablement d'une firme à l'autre et, au sein d'une même firme, d'une période à l'autre' ³.
63. Nevertheless, it is clear that Japanese industry in particular has an exceptionally high level of productivity compared to its competitors, and that its increase in productivity has been faster. This would appear to be due to a number of factors, to the Japanese industry being essentially one of assembly rather than manufacture with a heavy reliance on and coordinated relationship with the component manufacturers and with stock levels consequently being minimized, to a high level of automation and to a non-militant

¹ Koopman Op. Cit. page 44

² Commission study Op. Cit. page 13

³ 'Commentaires de la Chambre Syndicale des constructeurs Français d'Automobiles (CSCA) concernant l'avenir de l'industrie automobile Européenne' (page 3)

workforce working much longer hours (German working hours are about 20% shorter than in Japan) than those of its competitors and with lower rates of absenteeism.

64. The competitive threat from Japan is of course not just due to productivity differences but to other factors as well, which have helped to push down the cost of their vehicles, including much lower (and not very transparent) wages paid by some of the component manufacturers, the much lower social costs paid by Japanese manufacturers and the undervalued yen. Yet, even if these other factors are given stronger emphasis (as did the European manufacturers' representatives in their evidence at the Economic and Monetary Affairs Committee's hearing on 20 October), it is still clear that the Community industry has certain structural disadvantages compared to that of Japan.
65. Much of the discussion at the Committee's hearing focussed on comparisons with Japan, which is the main cause of current concern. Nevertheless, a lot of vaguer concern has been expressed about the longer term competitive implications of the massive investment programme (\$80 billion) currently underway in the United States.
66. This raises questions about respective financial situations and future investment capacities. It would appear that the Community industry may have an overall weaker financial structure than that of its major competitors, in particular it is worth noting that levels of indebtedness are considerably higher than those of Japanese and American firms.
67. Whether the Community industry will be able to finance the needed investment and the role of national governments and Community institutions are key issues that need to be examined. In this context, a more substantial increase in risk capital is needed.
68. The nature of the respective resources devoted to research and development are another important factor. Here the United States appears to have dedicated the largest amount of resources to automobile industry related research and development, and the level of government support has been higher as well.

69. Koopman's study¹ examined the differences between the situation in Germany and Japan. His study indicates that the share of intramural research and development expenditures in total sales of the German automobile industry declined from 3.4% in 1969 to 2.4% in 1977, and that the share of investment funds allocated for research and development purposes in total investment fell from 8.3% in 1971 to 3.2% in 1977, thus falling behind the average for manufacturing in Germany. Employment in automobile R & D also fell. In contrast, the 'Japanese automobile manufacturers expanded both R & D expenditures and employment more rapidly than the industrial average'.
70. While Koopman did not examine the situation in other countries in such detail he concluded that the German industry was probably devoting more resources to R & D, absolutely and relatively, than its major European competitors. His final conclusions were that 'European automotive R & D needs a strong boost if a further erosion of market positions is to be avoided in the years ahead'.

IV. KEY POLICY OPTIONS

71. From the above analysis it is evident that the European automobile industry is in a much stronger position than certain other Community industries, but that, nevertheless, there are a number of problems that need to be tackled at European level.

(i) Commercial policy

72. The issues of most immediate topical concern are in the area of commercial policy, and more specifically what to do to face up to the immediate commercial challenge posed by Japan within the Community market. This is having severe consequences and safeguard measures of some kind are called for.
73. Most of the speakers at the hearings organized by the Committee on Economic and Monetary Affairs and the Committee on External Economic Relations warned against the dangers of general protectionism not least because the Community is still a major exporter of vehicles as well as importer, though there were also certain calls for temporary import controls in order to buy a breathing space.

¹ Op. Cit. pages 46-49

74. At present there is a common Community tariff of 10.9% on cars and of 22% on trucks. Nevertheless, the approaches adopted by the different Member States in this area already vary considerably as a result of the absence of a true common commercial policy. The different national approaches range from the formal quota scheme agreed on between Italy and Japan whereby only 2,200 Japanese cars a year can enter the Italian market, to the restrictive approach of France and the 'gentleman's agreement' between the British and the Japanese, to the hitherto unrestricted access permitted by Germany. One of the problems in coming up with a Community-wide approach, which would be more effective and would guarantee more negotiating muscle, will be to face up to these very different approaches.
75. Taking an overall Community view, the preferable course of action would be self-limitation on the part of Japanese exporters to the Community market as a whole. Furthermore, formal contacts between the European and Japanese manufacturers' associations can play a positive role in helping to achieve such a limitation. Community negotiators should also seek greater restraints from the Japanese. At present, however, the longer-term effectiveness of the self limitation approach must be open to question; if positive results are not achieved, appropriate temporary decisions must be taken at Community level to face up to this situation in an effective way.
76. What then are the possible alternatives to a voluntary self-limitation on the part of the Japanese? In this regard, Community instruments have been proposed or already exist that could be invoked if necessary.
77. One such instrument that has been proposed is the Commission's draft directive on a special Community certification procedure for industrial products originating in third countries, which has not yet been adopted by the Council. If adopted, this could provide a useful tool in negotiations conducted by the Community aimed at opening up the Japanese market through the removal of administrative and other barriers to trade still existing in Japan. In this context, it is worth noting that the current imbalance between Japanese vehicle exports to the Community and Community vehicle exports to Japan is enormous (on the level of 50 to 1 and could be as great as 80 to 1 this year). Even given the different size and nature of the two markets, a far better balance is needed.

78. A further and actually existing Community instrument is Council Regulation 926/79 which contains two relevant sets of articles, Article 7 which permits the installation of Community surveillance when imports from a third country threaten Community producers, and Articles 12 to 15 which give the possibility of invoking safeguard clauses, including a Community quota.
79. Given the current impacts within the Community it may well be appropriate for some form of Community surveillance to be adopted, whether 'post' Community surveillance or the more rigorous 'prior' Community surveillance which requires the production of an import document¹. Finally, if all else fails, the safeguard articles 12 to 15 of EEC Regulation 926/79 might be invoked, though the overall GATT implications need to be assessed.
80. Imports from other countries currently pose far lesser problems. There may eventually be severe competition from the United States and from the new developing country producers but the measures that need to be taken at Community level are not at present primarily of a commercial nature, but more of a structural nature. The issue of imports from Spain and from Eastern Europe, however, need to be briefly mentioned.
81. While the common customs levy on cars is established at 10.9% Spain has a preferential access to the Community market. The applicable customs duty is only 4.3%. In recent years Spanish car production has expanded rapidly, and extra-Community producers have established themselves strongly. The trade agreement of 1970 between Spain and the Community has led to Spain having much readier access to the Community market, while Community producers have often found it difficult to enter the still heavily protected Spanish market. The current pattern of trade needs to be placed on an equitable basis. Furthermore, the implications of Spanish entry into the Community for both the Spanish and Community car industries as a whole need to be carefully examined by the Commission.
82. Concern about Eastern European exports is of a rather different nature, and primarily focusses on the lack of transparency of production costs, which, when combined with the need for foreign exchange, leads at least to the possibility of dumping on

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Not an import licence

the Community market. This issue needs to be monitored and, in particular, the implications of buy-back deals with Eastern European producers for the Community automobile industry need to be fully taken into account.

83. A final set of commercial policy issues concern the impacts of inward foreign investment and of investments by Community producers in third countries.
84. Inward foreign investment, investment by non-Community vehicle manufacturers within the Community is a long-established phenomenon, towards which a positive approach is needed. As an example of this, the major American firms are changing to manufacture within the Community rather than just covering the market by exports at a relatively early date. Recently, this trend has developed with Japanese producers beginning to get a foothold within the Community, through the agreements between British Leyland and Honda, between Alfa Romeo and Nissan, through the assembly plant for Hino trucks in Ireland, and through possible involvement in the Spanish market. Such a trend has highly positive aspects, notably the creation of new jobs and possibly an infusion of new techniques and ideas and it is certainly preferable to the market being covered by imports, but it can also have negative effects, such as an increase in technological dependence.
85. An even more controversial phenomenon is outward investment by Community producers. This has developed strikingly in recent years, in developing countries such as Brazil, where the output of firms such as Fiat and Volkswagen has reached a level of almost one quarter of home output, and in the United States where Volkswagen was the major pioneer but where other European firms are following. It is still notably absent in Japan.
86. The possible motives for foreign investment are very numerous, ranging from a need to create or maintain a producer's position in a foreign market which may be exceptionally large (such as the United States) or may be increasingly surrounded by barriers to imports (such as many rapidly growing developing countries), to seeking a lower cost manufacturing base in order to export worldwide, and so on. The greatest literature on the subject is in the United States where there have been lengthy arguments as to the balance of benefits and of costs of such foreign investment, such as whether there is a straight displacement of jobs at home and the overall impact on exports and imports¹.

¹ 'American Multinationals and American Interests' by Bergsten, Horst, Moran, which concludes that, given the complex and contradictory evidence, a policy of neutrality, neither restricting nor subsidizing foreign investment, is preferable.

87. It is evident that no easy generalizations can be made on issues of inward and outward investment. Each case must be judged on its merits, the terms of such investment being vital such as, for instance, the extent of local content provisions. Community monitoring, however, of the overall impacts of such investment would be desirable.

(ii) Achievement of a true Community market

88. If certain problems of commercial policy call for immediate action, it is clear that a whole range of other actions will also be needed to achieve the key goals of maintaining the competitiveness and increasing the productivity of the European automobile industry in the longer term.
89. One of the first needs is for full advantage to be taken of the scale of the European market. A Community market in this area does not yet truly exist and efforts need to be made to harmonize relevant national regulations, including fiscal barriers in coordinating national aids, and in eliminating technical barriers to trade.
90. In this latter field, considerable progress has been made. It is, however, important that the technical barriers directives dealing with motor vehicles which are still pending at Council level should be adopted, as should the proposal for a special Community certification procedure for industrial products originating in third countries. It is worth noting that when these are adopted, a Community type approval certificate for motor vehicles would effectively exist.

(iii) Industry structure

91. Excessive fragmentation has been identified as one of the major potential disadvantages for the Community in facing up to its competitors. Measures should be taken to encourage greater cooperation between firms in the future, for instance, in the forms of joint programmes of non-competitive research, joint production ventures for costly components and other forms of cooperation.
92. Formal mergers, particularly carried out over national boundaries, can often present considerable problems, and these disadvantages as well as advantages are becoming more apparent. (In this context it is interesting to note a shift of emphasis in Community policy away from the promotion of 'European champions'). Nevertheless, concentrations should be encouraged where clearly appropriate, as in certain areas

of the components industry. In this context Community competition policy might well be interpreted not simply within an intra-Community context but also in terms of the need to compete effectively with extra-Community producers.

(iv) Research and development

93. It is vital that research and development efforts within the Community do not fall behind those of its major competitors. In this context it is encouraging to note that there seems to be increased cooperation in this area among the major manufacturers, as illustrated by the recent research venture involving Fiat, British Leyland Peugeot, Renault, Volkswagen and Volvo.
94. This is, however, where the Community can also play a key role by helping to ensure the coordination of national research efforts, as well as by providing direct support for programmes of non-competitive research.
95. The greatest challenge is to improve energy conservation, through research into such fields as the use of alternative fuels (such as synthetic fuels), improving engines and gearboxes, reducing vehicle weight, improving aerodynamic qualities, and so on.
96. One rapidly developing feature is the increased use of electronics in vehicles. This is one field where the Community must ensure that its current lag in the new electronics technologies behind the United States and Japan does not put it at a longer-term disadvantage.
97. Further important research challenges lie in the promotion of greater vehicle safety, and in noise and emission control. Another key area for research is into improved production techniques.

(v) Regulations at Community level

98. Energy conservation, safety and environmental protection must remain key public policy priorities. One key issue which needs, therefore, to be further examined is whether there is a need for a continued essentially voluntary approach or for mandatory regulations to be established at Community level. The Community's major competitors, the United States and Japan, (as well as smaller competitors such as Sweden) have put more emphasis on a regulatory approach than have the countries of the Community.

99. Industry has argued against the establishment of mandatory targets within the Community, and also that meeting environmental targets in particular would result in increased costs that could not be borne at present.
100. However, mandatory regulations, particularly in the current priority area of energy conservation, could be a valuable stimulus to substantial progress in these areas, and could help to improve competitiveness in the longer term, particularly in competing within markets where more rigorous standards have been imposed. Entering the Japanese market, for instance, already a difficult task, would be even more difficult if Japanese emission standards were not met.
101. What is certain, however, is that if regulations were established they should be at Community and not individual national level, which would lead to the creation of more internal barriers.
102. The objectives of improving energy saving, safety and pollution control may not always be strictly compatible both between themselves (e.g. emission control standards leading to increased energy consumption) and between them and increased productivity cost reduction objectives.
103. The above problems would appear to be a priority area for study and for measures; the Parliament therefore calls for a Commission study into the various implications of establishing regulations at Community level, on the nature of some of the costs that are entailed, on the impacts on shorter and longer-term competitiveness and on the trade-offs that may have to be made.
- (vi) Social aspects
104. There will clearly be major social repercussions as a result of forthcoming changes within the European automobile industry. It will therefore be necessary to take accompanying measures to cope with the adverse effects. In this field the Community should play a major role.
105. It should take the lead in examining the impacts on levels of employment and on working conditions of technological and of other changes within the industry. The implications of increased automation should be given particular priority.

106. Moreover, it will be essential to give prominence to Community vocational training programmes and to adopt suitable measures to finance them, in particular via the European Social Fund, as well as other measures aimed at improving job mobility.
107. It will also be important to ensure that the trade unions and the entire workforce are kept adequately informed at an early stage and that the social partners should be encouraged to work together in developing appropriate policies. Guidelines concerning the reorganization of working time should be adopted.
108. The regional impacts need to be carefully monitored and measures taken so that the localities most affected by forthcoming changes are not too seriously harmed and so that regional disequilibria within the Community are not accentuated.
109. Finally, transport policy considerations should also be taken into account. One area where action is needed is the development of a more modern and effective public transport policy which could, for instance, help to improve traffic flows, reduce energy consumption and improve public transport facilities.

**MOTION FOR A RESOLUTION (Doc. 1-280/80)
tabled by Mr Sergio PININFARINA
pursuant to Rule 25 of the Rules of Procedure
on a European policy for the motor industry
The European Parliament.**

- whereas the present situation and the short and medium term prospects for the European motor industry are particularly serious and worrying,
- 1. Reminds the Commission and the Council of Ministers of the European Communities in so far as they are competent of the need for planned action to tackle the problems facing this industry on a general basis and thus enable European firms to survive this difficult period and then to meet the ever-increasing competition from outside the Community effectively;
- 2. Regards the energy crisis not as the only but certainly the basic cause of the increased difficulties faced by this industry.

The most obvious consequences include:

- the growing dependence of the USA on expensive and uncertain imports of oil which has led to new attitudes and legislation aimed at reducing energy consumption and hence encouraged American manufacturers to think in terms of cars of the same size and specification as those made in Europe;
 - the problem of energy saving and stricter anti-pollution rules which have also forced manufacturers to develop new technologies requiring investment on a scale more compatible with the size of industry to be found in the USA and Japan than in the Community;
 - the different ways in which the national economies have reacted to the rapid and exceptional rise in oil prices which have led to divergencies in the rate of increase of real disposable incomes which have in turn seriously affected the relative sizes of the various national markets in Europe;
3. Underlines its concern at the strong American and Japanese challenge which has now emerged and which the European industry is not at present in the best condition to meet effectively;

4. Points out in connection with this dual challenge that:

- the American industry is preparing to attack the world market and the European market in particular from a position of strength by 1981 using the results of major investment programmes geared to 'down-sizing'. These involve engine design, the choice of materials and the use of electronics all in accordance with a plan to switch to cars of a European type.

Investments in this field are enormous: between \$ 70 and 80,000 million over the period 1979-1985. GM alone spends \$ 5 to 7,000 million on investment each year.

Implementation of these programmes benefits from a combination of factors: sustained Government support for research activities and a greater degree of productive mobility and flexibility resulting from the industrial relations climate and cooperation between employers and workers which allows firms to manage even major crises without too much drama;

- as far as the Japanese industry is concerned it is sufficient to consider the main features of its extraordinary growth.

By 1979 production, which had begun in the 1960s, exceeded 6 million units, half of which were exported, and according to realistic forecasts - based on the level of investments made - it is likely to reach the 12 million mark by 1985. It is also impressive to note that in the five year period 1973-1978 production of cars has increased by 38% in Japan and 8% in Germany while it fell by 19% in Italy and 39% in the United Kingdom. Over the same period Japanese exports rose by 113%, French exports by 17% whereas Germany exported 8%, Italy 1.2% and the United Kingdom 31% fewer cars. This explains why the Japanese industry's share of the European market grew from 0.5% to 7% in the 1970s despite the strict quotas imposed by some countries.

The Japanese industry was able to achieve this performance because of its outstanding level of productivity. The leading Japanese manufacturer produced 42.8 cars per worker in 1978, the leading German manufacturer 13.6 and the leading Italian manufacturer 11.2.

This situation can be explained by a number of factors:

- relating to the social climate and including (a) more stable industrial relations in tune with the demands of a modern industrial society, (b) workers' and trade unions' attitudes in tune with the specific nature of this type of industry and receptive to the idea that the interests of the firm and of its workers are identical;
- relating to structural aspects and including (a) large-scale manufacturers able to obtain major economies of scale from the standardization of components, (b) lower unit costs, greater flexibility in deployment of the workforce, a high degree of mobility and average working hours much higher than in Europe (e.g. Japan 2,200/2,400 hours, Italy 1,500 hours a year).

5. Points out that faced with this external competition the Community car industry is structurally weak because it is split up into an excessively large number of producers in comparison with the overall level of production.

Ten European manufacturers account for 27.7% of world production or 8.8 million units compared with GM which has a share of 22.6% or 7.2 million units.

The two major European groups (PSA and VW) account for less than 30% of European production whereas GM and Ford in the USA and Toyota and Nissan in Japan account for about 75% of their national markets.

There is not then a European automobile industry as such but a series of national industries, each of which tends to dominate its own internal market, as is confirmed by the following figures:

- (a) VW 31% of the German market
- (b) Fiat 56% of the Italian market
- (c) Renault 33% of the French market.

These structural defects make it inevitable that further weaknesses will develop in the face of world competition:

- because of the splitting up of production facilities and the limited scale of production, it becomes more difficult to achieve economies of scale and to introduce automation, make innovations and achieve technological independence and the possibilities of standardizing components are reduced;
 - the 'national' objectives of the various automobile companies lead to a tendency to diversify their product which makes it more expensive to cover individual national markets;
6. Deplores the particularly worrying fact that the net result of this situation is that - in an energy crisis which is weakening the automobile industry throughout the world - it is the European industry which is suffering instead of setting the pace in competition.

At the present time the industries in the USA and Japan appear more readily able to convert rapidly to the technological requirements of the European market, while the industry in Europe is slow to rationalize although it has always offered for sale on markets outside the Community products with a lower energy consumption;

7. Believes that, in spite of all these difficulties, protectionism is not the way of dealing with external competition but also believes that it would be fatal to the Community's automobile industry to face up to this challenge unprepared and that at least until the first effects of coordinated measures by the Community begin to be felt it is necessary to take a number of temporary safeguard measures to protect the competitive position of the industry in Europe;

The European Parliament therefore:

8. Requests the Commission and Council to lay down a series of measures for action and coordination in the Community automobile industry making planned use of the existing legal instruments and directed towards a two-fold strategy:

- (a) Externally, to remove the structural causes for Europe's inferiority compared with the US and Japanese industries;
- (b) Internally, carrying out a general rationalization of the industry, ensuring that it does not weaken but rather strengthens the flexibility of decision-making and operation of companies.

These objectives can be achieved in three ways:

- unification of market conditions
- unification of the conditions of operation of companies by harmonizing national legislation on industry
- coordination of national public aids in this sector;

9. Stresses in particular two fundamental priorities

- (A) granting incentives to the automobile companies' European research programmes on fuel consumption, emissions, safety, new technologies and alternative energy systems;
- (B) encouraging concentrations in the components sector to be implemented through a European industrial policy operating independently of national government policies.

As regards point (A) we must take a positive attitude and see the recent agreement concluded by six European manufacturers as a move towards cooperation in this field, a starting point for the more intense efforts which will be achieved with the direct involvement of the Community institutions.

As regards point (B) on the other hand, this is undoubtedly the most suitable short-term measure to enable the industry in Europe to achieve a competitive position with regard to non-Community manufacturers. It will indeed be possible in this way to achieve economies of scale while maintaining the specific identities of national products and the necessary decision-making and operational flexibility of individual companies.

One of the ways in which the Community should encourage this process of concentration is the creation of new production plant for the manufacture of shared components.

These plants should be sited in the depressed areas of the Community and granted financial aid to reduce installation costs. Because this type of production has a high added value in relation to transport costs, it will also have a much wider available market than the finished product and will therefore be a better way of extending automobile construction processes to the poor areas of the Community without having recourse simply to forms of aid;

10. Affirms the vital importance for the recovery of the automobile industry of the implementation of a series of provisions and changes in legislation and in the policies of governments, employers and unions on industrial legislation in general.

This applies in particular to:

- (a) the harmonization of laws on industrial relations;
- (b) the harmonization of the social security component of wage costs;
- (c) a uniform definition of annual working hours and conditions governing overtime;
- (d) the concentration of incentives;
- (e) the monitoring of all measures which might affect production costs in various fields;
- (f) the introduction of a fund for temporary lay-offs, and for vocational training to provide for smooth operation of restructuring processes in this sector;
- (g) the launching of major industrial projects in the automobile sector outside of Europe with a resumption of the activities of the European Ex-Import Bank;
- (h) the granting of incentives to exports outside the Community.

All these provisions are of a particularly urgent nature if, as the Commission pointed out recently, the industry in Europe is to maintain control over its own future and not be a mere link in a world strategy which is decided on elsewhere without its knowledge;

11. Instructs its President to forward this resolution to the Council and Commission of the European Communities.

MOTION FOR A RESOLUTION (Doc. 1-311/80)
tabled by Mr SARRE, Mrs CHARZAT, Mr MOTCHANE, ANNEX II
Mr SCHWARTENBERG, Mr OEHLER, Mr PETERS, Mr SUTRA,
Mr SCHIELER, Mr ROGERS, Mr FAURE, Mrs SALISCH,
Mr JOSSELIN, Mr VAN MIERT, Mr van MINNEN, Mr von der VRING,
Mr LOMAS, Mr BOYES, Mrs CLWYD, Mr ESTIER, Mr MOREAU,
Mr PISANI, Mr BALFE, Mr JAQUET, Mr GLINNE and Mrs ROUDY

with request for urgent debate pursuant to Rule 14 of
the Rules of Procedure

on the future of the car industry

The European Parliament,

- disturbed at the serious and mounting threats to the future of the Community car industry,
- anxious for production capacities and employment levels in this sector to be maintained,
- surprised at the unrestricted expansion of the trading activities of third countries, which are frequently akin to dumping and seriously disrupt the Community car market,
- considering, in particular, the deficit in the relevant trade balance with one third country, Japan,

1. Rejects the comments made by the Commission representative responsible for industry indicating a refusal to take the measures needed to safeguard the European car industry;
2. Denounces this attitude, which constitutes a serious threat to employment, at a time when there are more than six million unemployed in the Community;
3. Requests the Commission to submit to the European Parliament an urgent programme designed to safeguard the Community car industry and including the necessary commercial, industrial and social measures.
4. Instructs its President to forward this resolution to the Council and Commission.

JUSTIFICATION

The substantial imbalance in trade in the car sector is seriously undermining employment in this sector. The statements made by the Commission representative in Munich on 3 July call for immediate comment by the European Parliament.

OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Draftsman: Mrs S. AGNELLI

The committee considered the draft opinion at its meetings of 23 September, 1 October, 25/26 November and 2 December 1980, and adopted it at the latter meeting by 13 votes to 5 with one abstention.

Present: Sir Frederick Catherwood, chairman; Mrs Wieczorek-Zeul, vice-chairman; Mr van Aerssen, vice-chairman; Mr Irmer, deputy draftsman; Mr Bøgh, Mr De Keersmaeker (deputizing for Mr Jonker), Mr Deschamps, Mr Filippi, Mr Giannarra, Mr Hänsch, Mr Lemmer, Mrs Lenz, Mrs L. Moreau, Mr Nord (deputizing for Mr Louwes), Lord O'Hagan, Mrs Pruvot (deputizing for Mr de Clercq), Mr Radoux, Mr Rieger (deputizing for Mr Seal), Mr Seeler, Mr Spicer, Sir John Stewart-Clark and Mr Welsh.

I. Possible initiatives by the European Parliament and the Commission

1. In tackling the problems of the car industry, we should ask ourselves what role the European Parliament might legitimately be expected to play, what policies should be recommended to the Commission and what particular measures should be implemented by the Commission. The draftsman feels that it should be re-emphasized that it is not the role of the Commission to take over from individual companies the responsibility for taking the decisions required to adjust production to take account of the present state and the likely development of the industry.

In conformity with the provisions of the Treaty, efforts must be made to identify those measures that would be most likely to help car manufacturers take full advantage of their position as part of a massive, integrated Community market (detailed figures are to be found in PE 67.008). The task of the Common Market must be to place manufacturers on an equal footing with their foreign competitors, so that they are in a position to resist competitive pressures without having to resort to the sort of protectionist measures that would undermine the very nature of the Common Market.

II. The development and structure of demand within the Community

2. The ample information contained in the document to which we have just referred needs to be supplemented by an evaluation of the likely trends in demand for motor cars on the Community market and a breakdown of the various categories of vehicles available to meet that demand. In this connection, it should be pointed out that, notwithstanding a decline in overall growth, the European market will continue to be one of the main world markets, even though trends in and the structure of demand on that market do not reflect a uniform pattern in the various Member States.

3. By way of illustration, during the period following the first oil crisis (1973), demand on the Italian car market increased at a slower rate than gross domestic product, in contrast to what happened in France, Germany and the United Kingdom.

A further factor to be borne in mind is that the structure of demand differs from one Member State to another: the small or 'mini' cars (Fiat, Ford Fiesta, etc.) account for almost 50% of the total market in Italy and for about 35% in France, whereas in Germany and the United Kingdom the percentage is only about 15%.

Despite the fact that in Italy the level of motorization is approaching that of the other Member States, the market share of the larger vehicles is only 20-25%, as against 50-60% in the United Kingdom and Germany; the main reasons for this are the differences in per capita income, the pattern of car purchases (first car, second car, replacement) and fiscal policy.

Since the Community market is highly integrated, the qualitative differences in the structure of demand mean that the choice of production ranges is dictated by the national market, which makes it particularly difficult for manufacturers such as Fiat that suffer from diseconomies of scale in producing and distributing cars in the up-market category, to maintain output of a range of models suited to the wider 'European' market.

In Europe, therefore, the lack of market homogeneity compared with the Japanese market, coupled with the need for economies of scale in production and distribution, tempts certain manufacturers to cater exclusively for the national market.

III. The strategy of the Americans and the Japanese

4. The development of the European car industry in the 1980s will largely be determined by the new policies now emerging in the USA and Japan, as well as by marketing trends in Eastern Europe and in some of the developing countries (Korea and Brazil, for example).

The draftsman considers it important to give a short preliminary account of the new 'American challenge' and of Japanese reactions to it, since, together with a further slump in economic growth and the continuation of the energy crisis, they will be the factors that will have the greatest influence on the European industry.

First of all, what do we mean by the 'new American challenge'?

General Motors, the world's largest car producer, decided at the end of the 1970s to switch from a policy of maintaining the company's share of the market and distributing profits in dividends to shareholders, to a more aggressive policy, albeit of an 'indirect' kind, based on the promotion of the USA's new energy policy (CAFE) and counting on the fact that Ford and, above all, Chrysler, would be faced with appreciable difficulties in the process of 'downsizing' their vehicles.

The essence of the new American challenge, therefore, lies in the production of the small and much-publicized 'world' cars. This new aggressive approach is causing the US Government considerable embarrassment since, traditionally, it has pursued a policy of non-intervention in the industry, intervening only in its capacity as 'legislator' to enforce the relevant safety and anti-pollution regulations. Now, however, it finds that it is compelled to give financial assistance to Chrysler, while the FTC is trying to establish whether the success of GM is to be ascribed to its efficiency or, instead, to the exploitation of monopolistic privileges.

5. The new American strategy has triggered off a chain reaction on the part of competitors. The Japanese, in particular, are being forced to adopt a fundamentally different strategy. Contrary to what is commonly believed, the success of the Japanese in the 1970s was based on the perspicacious development of commercial and production strategies that fully exploited the country's particular socio-industrial structure.

The growth of the national market (12% in the 1960s and 6% in the 1970s) was protected partly through the collaboration of the MITI, with the introduction of safety and anti-pollution regulations that created 'concealed' barriers to imports (customs duties were abolished), and partly through a reduction in prices in real terms.

In addition to achieving a strong position on her own market (50% of all sales), Japan evolved a shrewd export policy, aimed at the USA and at European countries without a national automobile industry (Belgium, Switzerland, etc.), with a weak national industry (United Kingdom) or with an industry that enjoys less protection than most (Germany).

This policy enabled Japanese manufacturers - and in particular Toyota and Nissan - to achieve very high output levels and, hence, economies of scale. A further factor has been the special structure of the Japanese industry which enjoys at one and the same time the advantages of integration and the advantages of dispersion (Toyota and Nissan have introduced a flexible salary structure and succeeded in standardizing components through the indirect control of a chain of large, medium-sized and small subsidiary suppliers).

However, the Japanese industry is now under pressure.

The national market is beginning to decline, with growth during the 1980s being forecast at 2%. In addition, there is the 'new' American challenge and pressures within the USA for tighter protectionist measures, the emergence in the developing countries of new competitors (the Koreans, for instance) and the pursuit within Europe of an increasingly tough policy of protectionism (quota restrictions in Italy, semi-official restrictions in France and the United Kingdom and threatening protests on the part of the Germans).

The Japanese are reacting to these new pressures in the following way. In the USA the aim will probably be to build assembly plants locally and to penetrate new markets (prestige saloon cars and sports cars), which have traditionally been dominated by imports from Europe, while in Europe itself attempts are being made to circumvent protectionism via agreements with European manufacturers (Honda-BLMC, Alfa-Nissan, Toyota-Seat).

It will be possible for this commercial strategy to be maintained if output can be kept at traditional levels through further reductions in costs, increased automation etc., which ought to enable the Japanese industry to reduce its break-even point from 60% of use of capacity in the 1970s to 40% in the 1980s (c.f. developments in the Japanese iron and steel industry).

IV. The strategy of the Europeans

6. In this new competitive situation, the European manufacturers will be caught between two fires. The American challenge poses a threat both to European sales in the USA - in view of the current policy of 'downsizing' - and to the sales prospects of European manufacturers in Europe, with Ford and Opel competing for a larger share of the market.

At the same time, the Japanese represent a threat both in the USA - with the possibility of Japanese assembly plants being built locally and a shift in Japanese interests towards traditionally European markets - and in Europe where, by direct and indirect means, attempts are being made to secure an even larger share of the markets.

It is difficult to hazard a guess as to which manufacturers will still be in business at the end of the 1980s. It will perhaps be instructive to take a closer look at the strategies applied by the larger European producers like, for instance, Ford and General Motors.

7. The European strategy of Ford and GM is a reflection of their international strategy, but Ford has been more successful, having achieved a larger increase in its market share and bigger profits. Indeed, Ford has been a far more aggressive competitor than Opel (most of Ford's world profits derive from its European operations), since it has pursued a production range policy that is at once aggressive (one has only to think of the success of the Fiesta, whereas Opel has not even entered the small car sector) and rational (maximum standardization of engines, transmissions etc.) and is based on a far more 'European' and integrated production strategy than that pursued by Opel (Ford is an 'integrated' producer in Germany, the United Kingdom, Spain, etc., whereas Opel has not even succeeded in integrating Vauxhall. GM's new world strategy will, however, be an incentive to Opel to develop a more aggressive production range policy, to formulate more fully integrated production policies and, above all, to increase its production capacity (factory in Spain capable of producing 300,000 vehicles).

Ford will try to defend its interests without any great changes in strategy, while taking full advantage of its lead in the development of the 'world car' (of which the recent Erika/Escort is a good example).

The French industry

8. The takeover of Chrysler Europe (Talbot) gives the Peugeot-Citroen group the chance to become the leading European manufacturer. The group's strategy will be primarily based on the rationalization of the range for its three markets, which at present comprises some 30 different bodies and 7 engines with transmissions and is thus preventing the group from taking full advantage of the possible economies of scale. In addition, the group will press on with the task of rationalizing components - which began with a view to national requirements (Douvvin factory, with Renault), but is now beginning to take on a European dimension (agreement with Fiat for the joint production of one million engines) - and its networks throughout France.

During the 1970s Renault increased its share of the market by pursuing an aggressive production range policy (R5) and an aggressive product promotion policy (LE CAR), while maintaining a large number of bodies and 8 engines within its production range.

The takeover of Talbot by Peugeot-Citroen created a threat for Renault, since it had now to face very strong domestic competition. Its response to this threat was to conclude agreements with Volvo and American Motors, which is a clear indication that its strategy in the 1980s will be directed, not merely towards a rationalization of the basic range, but also towards a strengthening of the up-market range of vehicles (with the assistance of Volvo in Europe and of AMC in the USA),

VW Audi

9. The success of the new strategy adopted by VW Audi in the 1970s - as reflected in the group's superlative marketing and financial performance - is attributable to an astute production range policy, which brought into being a whole series of new models (Golf, Polo, Audi 80, etc) and to the achievement of extraordinary economies of scale thanks to the standardization of the various models and the effective amalgamation of VW and Audi (using only three engines and the same floor pans/bodies). Besides this successful production range policy, mention should also be made of the American venture with VW.

In the 1980s VW Audi will probably endeavour to counter competitive pressures through a greater diversification of the Audi and VW ranges, investment in automation and a further expansion of activities outside Europe.

BLMC

10. BLMC continues to make headway with its restructuring programme thanks to a new production range policy, whose success can be judged by the appearance of the Mini Metro, the Bounty (jointly produced with Honda) and, before long, the new LC10. The restructuring programme is aimed at achieving greater competitiveness in terms of costs and is based on the elimination of a few models, the use of Japanese mechanical components for the Bounty and a high degree of automation for the production of the Metro. All this points to a cut-back in volume terms, as is attested by the loss of 18,500 jobs in 1979, while a further 25,000 redundancies are expected over the next one or two years.

Fiat

11. In the 1970s Fiat had set itself a production target of 2 million vehicles - considered to be the minimum number that would guarantee survival - for its three markets, represented by Fiat, Lancia/Autobianchi and Seat respectively. The present reduction in sales and the financial losses sustained by Fiat are attributable to the notoriously difficult industrial relations problems, as well as to the considerable diseconomies of scale resulting from the limited degree of standardization between the three markets, the smallness of the Italian market for vehicles in the up-market category and the extent of the competition between 1973 and 1978 in market sectors of vital importance to Fiat (127 and 128).

Fiat's new strategy envisages the restructuring of the range with four basic models, the elimination of the Seat and the negotiation of agreements for the development of quality cars and for the supply of components (e.g. an agreement with Peugeot for one million engines). On top of this, there are plans to scale down production and to lay off workers while this is in progress.

The smaller manufacturers

12. BMW, Mercedes, Alfa, Volvo, etc. cannot afford to ignore the radical changes now affecting the pattern of competition. For these 'specialized' producers the basic question is whether the large profit margins they enjoy thanks to the prestige factor are greater than the extra costs arising from the diseconomies of scale that a lower level of output inevitably entails. The German companies (BMW and Mercedes) find themselves in a favourable position (as is attested by their much-publicized share of the market and their substantial profits), owing to the size of the German market for their products and to large profit margins.

These two companies will be investing almost 7,000 million dollars on the extension of their range (the 'small' BMW 1300 and Mercedes 1700), as well as on promotional measures and the expansion of capacity.

13. Unlike the German companies, Volvo and Saab have found that profit margins have not been sufficient and are still not sufficient to offset the diseconomies of scale resulting from a small domestic market. The two Swedish firms have tried to circumvent this difficulty by means of agreements with other European manufacturers for the supply of components (e.g. Dövrin and Volvo) and other agreements (Volvo-Renault and Saab-Lancia) that alone will ensure their survival in the 1980s.

14. Alfa Romeo is trying to offset the diseconomies of scale resulting from the smallness of the Italian market for the high-performance cars for which it traditionally caters, with a new production range policy. It is also trying to 'fill up' the production capacity of the Alfasud factory through an agreement with Nissan.

15. Finally, the new Innocenti, formerly a subsidiary of BLMC, has managed to survive thanks to an improvement in productivity and to the economies of scale made possible by the supply of BLMC engines and transmissions.

16. To sum up, then, the European industry will be under considerable pressure during the 1980s, not merely because of a further slump in the growth of the market, but also and mainly because of new competitive pressures.

As we have seen, the new strategies of the American and Japanese manufacturers have received the full support (albeit controversial in the case of Chrysler) of their respective governments.

On the other hand, the European governments have developed policies for the motor car industry primarily with a view to national requirements. The German Government, with its reluctance to adopt protectionist measures (one has only to think of the position established by the Americans and of the recent massive increases in the share of the market achieved by the Japanese), has nonetheless helped VW and BMW out of their occasional difficulties, although at present, with the industry in a strong and buoyant position, government assistance is restricted to the generous financing of research programmes.

After attempting, in the 1970s, to encourage the formation of a national bloc centred on the Renault and the Peugeot-Citroen-Talbot groups, the French Government recently authorized a greater degree of 'Europeanization' (Renault-Volvo, and the Peugeot-Fiat deal for the supply of one million engines), while maintaining a tolerant, though potentially threatening,

attitude towards Japanese imports until their share of the French market eventually settled at around 3%.

The objectives of the Italian Government have been the creation of new jobs in the south (especially via Alfa Romeo in which the State has a holding) and the strict maintenance of quota restrictions (approximately 2,000 vehicles a year) on imports of Japanese cars. Of late, there seem to have been moves to revive the national industry, as evidenced by the approval given to the Alfa-Nissan agreement (which remains conditional upon the agreement's compatibility with Community and national objectives) and by the formulation of a sectoral plan.

Finally, the traditional role of the British Government has been to intervene to rescue firms in difficulty, as well as to provide direct financial assistance to BLMC. In recent years, and especially since the Ryder and CPRS plans, the government has supported the restructuring of the national car industry - and particularly BLMC - though this has meant sacrificing many jobs. By and large, the British Government has in the last few years adopted a moderately protectionist approach, forcing the Japanese voluntarily to restrict their imports to a level of about 11% of the national market, while at the same time authorizing the agreement between BLMC and Honda.

In a word then, the attitudes of the European governments have largely been a reflection of national views, experiences and objectives.

The German Government pursues a policy of virtual non-intervention, in view of the competitiveness of its domestic car industry; the French Government has endeavoured to strengthen the competitiveness of the French companies, initially with a view to national requirements and now, it would seem, with a view to the broader European interest; the Italian Government has devoted its energies to the protection of its national industries as a source of new jobs; the British Government, following a period of rescue operations, is supporting an expensive and painful process of restructuring.

The Community, on the other hand, has played an altogether limited role and has unquestionably been more active in other sectors such as the iron and steel sector.

V. Proposals

17. The above survey raises many questions and since the answers to some have a bearing on the answers to others, it is right to assume that we are dealing here with a matter in which there are many imponderables and uncertainties. It would seem that one of the objectives

of Community action should be to reduce the area of uncertainty, and it is with this in mind that we would now venture to suggest a number of possible guidelines.

First and foremost, it seems obvious from the observations made above that the European car industry is now entering a period of profound and radical restructuring that could call both for a sizeable reduction in production capacity in order to eliminate uncompetitive structures and for the launching of new strategies. However, the Member States will not be required to act in an identical fashion, since it is apparent that there are marked and increasing differences in the competitive capacity of the various national industries.

18. In the management of the restructuring programmes, the Commission's functions might be to ensure that the sacrifices that rationalization entails are spread fairly between the stronger and the weaker undertakings, to coordinate restructuring schemes and to support these schemes with appropriate international trading policies.

The task of rationalizing the industry will require the introduction of a comprehensive employment policy that will promote, as necessary, inter-sectoral mobility, while generally encouraging the mobility and retraining of the labour force.

19. As part of the restructuring process, the search for 'European' economies of scale, especially as far as components are concerned, may call for the reorientation of industrial policies that are traditionally formulated with purely national requirements in mind (attention is drawn in this connection to the Peugeot-Fiat agreement for the production of one million engines). If economic requirements are such as to necessitate agreements and joint ventures of a transnational kind (BLMC-Honda, Alfa-Nissan), and not solely of a European kind, the final terms must be left to the individual companies themselves to decide.

20. Again as part of the necessary restructuring process, it is of fundamental importance to coordinate research in order to avoid imbalances, duplication and pointless competitive expenditure. This will mean orchestrating the provisions relating to incentives and monitoring their application via control of the competitive process.

Research must be directed towards the attainment of well-defined European objectives relating to safety, anti-pollution measures, the reduction of fuel consumption, technological development models, etc.

21. Finally, the regulations and policies relating to trade, particularly with Japan, need to be more sophisticated than those that are based merely on protectionism and demands for the revaluation of the yen¹.

The car industry is of such vital importance in world trade that any form of national protectionism could have very serious consequences. Moreover, a 'processing' industry like the Japanese industry would, in the long run, be severely handicapped by an artificially undervalued currency. However, Japanese manufacturers at present have the edge over their European competitors in view of:

1. lower production costs resulting from lower social security charges and from a different approach to the organization of production, which is largely based on sub-contracting;
2. the 'competitive devaluation' policy pursued by the Japanese monetary authorities, as a result of which the value of the yen is at present 20% below its real value;
3. the difficulty of balancing trade between the EEC and Japan by securing greater access for the European industry to the Japanese market, owing to the different structures and the smaller size of that market.

As far as the first point is concerned, the Europeans simply have to accept the different socio-economic system of the Japanese as a fact of life, which they are in no position to alter.

As for the undervaluation of the yen, which is tantamount to a tariff barrier in trade relations between Europe and Japan, it is up to the International Monetary Fund (of which Japan is a member) to ensure compliance with the monetary policy competition rules laid down by its regulations.

Under the present conditions, apart from the restructuring measures we have mentioned for increasing the competitiveness of the European automobile industry, the best solution that can be suggested in the short term is voluntary restraint by the Japanese on their exports of cars to Europe, with a view to protecting mutual interests and in the knowledge that any further worsening of the crisis, with the dire consequences for the economy and employment that must surely be expected, would leave the Community with no alternative but to introduce very tough protectionist measures.

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In this connection, attention should be drawn to paragraph A of Article IV of the amended articles of the IMF Agreement, which reads: 'A member shall not manipulate the exchange rates or the international monetary system with a view to avoiding effective adjustments to its balance of payments or to securing an unfair competitive advantage in its dealings with the other members'. (IMF Survey, 2 May 1977, page 131)

The Commission must, therefore, assume responsibility for coordinating the dialogue between the Community and Japan (which is at present fragmented and, as we have seen, conducted in many different ways by the Member States), with the aim of achieving, by the most appropriate means and in the shortest possible time, an agreement between producers that embodies the principle of voluntary restraint on Japanese exports. However, where agreements and joint ventures between European and Japanese undertakings are concerned, if they can be reconciled with national restructuring plans and a comprehensive employment policy, then the right of full independent action by the companies concerned should be maintained.

22. The Committee on External Economic Relations endorses the section of Mr Bonaccini's motion for a resolution dealing with external trade policy (paragraphs 8 to 12).

23. The Committee on External Economic Relations proposes the following addition to Mr Bonaccini's motion for a resolution (after paragraph 8):

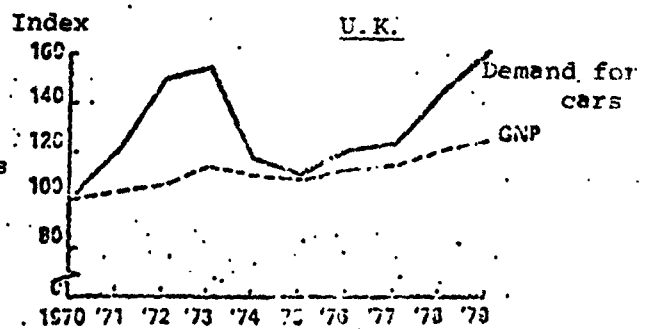
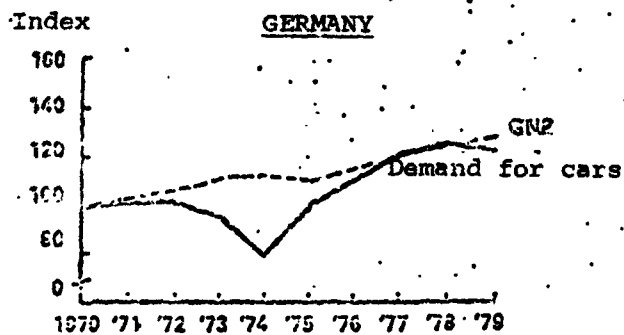
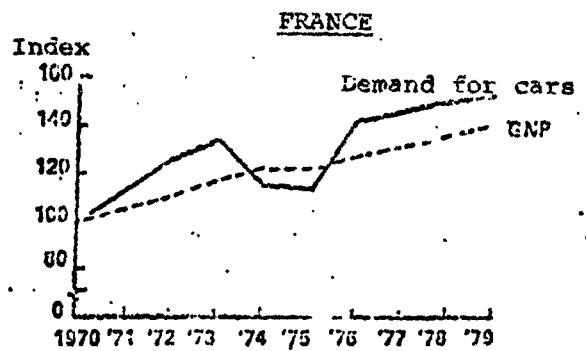
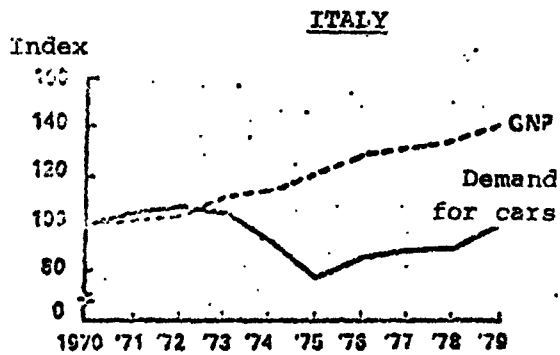
'Considers it necessary for Japan to exercise short-term self-restraint in respect of automobile exports to the EEC'.

ITALY COMPARED WITH OTHER
EUROPEAN COUNTRIES

(1978)

	Demand		Car density		Population		Per Capita GDP	
	'000 cars	Index	Cars per '000 residents	Index	'000 units	Index	\$US	Index
Italy	1,216	100	300	100	56,700	100	4,590	100
France	1,945	160	333	111	53,280	94	8,850	193
Germany	2,664	219	353	118	61,330	108	10,420	227
UK	1,592	131	252	84	55,900	99	5,530	120

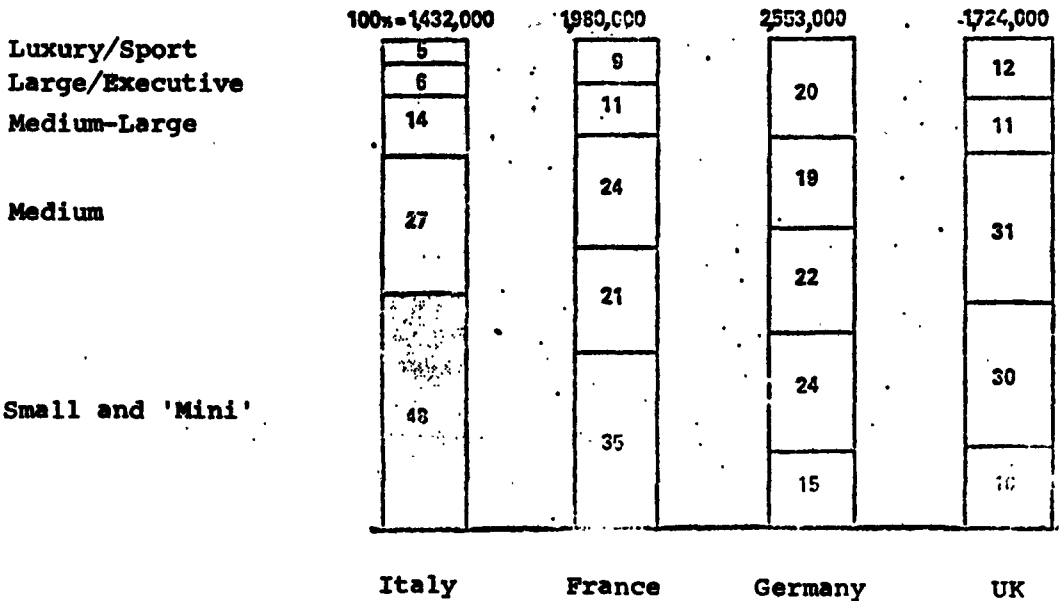
Source: Anfia, OECD and EIU



ANALYSIS OF TYPES OF CAR USED

IN SOME EUROPEAN COUNTRIES

(% of cars registered in 1979)



AID GRANTED BY GERMAN GOVERNMENT FOR RESEARCH

Area	Type and Amount
Reduction in fuel consumption	- 20m DM in 1978 - 135m DM earmarked for 1979-1982
Safety, noise, etc.	- 'Car of the Future' project 110m DM for the period 1979-1982
New technologies	- 75m DM in 1978 - 62m DM in 1979

OPINION ON THE COMMITTEE ON SOCIAL AFFAIRS AND EMPLOYMENT

Draftsman: Mr G. BARBAGLI

On 29 October 1980 the Committee on Social Affairs and Employment appointed Mr Barbagli draftsman.

The committee considered the draft opinion at its meeting of 1 and 2 December and adopted it by 10 votes to 7 with 5 abstentions.

Present: Mr Peters, acting chairman; Mr Frischmann, vice-chairman; Mr Barbagli, draftsman; Mr Boyes, Mr Calvez, Mrs Cassanmagnago Cerretti, Mr Ceravolo, Mrs Clwyd, Mr Dalsass (deputizing for Mr Nordlohne), Miss De Valera, Mr Estgen, Mr McCartin, Mrs T. Nielsen, Mr Oehler, Mr Pininfarina, Mr Prag, Mr Salisch, Mr Sarre, Mr Spencer, Mr J. D. Taylor, Mr Verhaegen and Mr Vernimmen (deputizing for Mr Van Minnen).

The Committee on Social Affairs and Employment invites the Committee on Economic and Monetary Affairs, as the committee responsible, to include in its resolution the following points:

1. Is alarmed at the serious difficulties which, though different in nature and extent in the various manufacturing countries, are confronting the European car industry as a result of a number of economic and structural factors, namely:
 - a) the fall in demand in the most important markets due to the economic recession,
 - b) the shifts in demand itself which, because of the continual rises in oil prices and the high density of car ownership in industrialized countries, is moving steadily, even in the American market, towards vehicles which use less fuel and is thus producing an increased need for changes in product specifications,
 - c) the growing success in the various markets of products from third countries, especially Japan, and the consequent worsening of the conditions of competition;
2. Stresses, on the other hand, the extreme importance, from the Community's social and economic point of view, of the car sector which in fact represents:
 - a) approximately 6 million jobs either directly or indirectly,
 - b) between 5% and 8%, depending on the country, of total industrial output,
 - c) one of the main markets for the steel, glass and rubber industries,
 - d) between 8% and 12% of industrial exports;
3. Notes that the difficulties in the industrial and commercial fields, arising from shrinking markets and the need to rationalize production, have already begun to have an effect in the employment field with a series of measures aimed at limiting or cutting back on staff in the following ways, depending on the circumstances:
 - a) mass redundancies,
 - b) lay-offs or short-time working,
 - c) measures aimed at providing early retirement and/or encouraging voluntary redundancies;
4. Fears that these difficulties may lead to a crisis situation similar to that which took the Community by surprise in the iron and steel, textile, and shipbuilding sectors;

5. Points out, therefore, that it is imperative that the Community implement its own measures or, at least, coordinate national policies in order to protect and increase the competitiveness and the productivity of the European car industry and to ensure that, with a view to guaranteeing employment, countries that export cars to the EEC are persuaded to set up production plants on Community territory;
6. Considers that, if this is to be achieved, the most advanced technology should be introduced and negotiations held with the third countries, notably Japan, the United States and the state-trading countries, to ensure that trade is not distorted, to the detriment of the European automobile industry, by unjustifiable competitive practices;
7. Points out in this connection that, as regards trade within the Community, competition between different European producers may be distorted by, among other things, the divergent legislation on employment and industrial relations in force in Member countries, and requests that the Community adopt measures particularly aimed at harmonizing social legislation and standardizing annual working hours and the conditions governing overtime;
8. Is firmly convinced that the rationalization and modernization of the car industry, and indeed other industries, cannot be divorced from an appropriate social policy at Community level which should be drawn up and implemented in consultation with both sides of industry and, which, with the objective of at least safeguarding employment levels, should be based on measures such as the following:
 - a) studies on the likely impact of restructuring and the introduction of new technologies on employment,
 - b) definition of new professional qualifications necessitated by technological developments so that national and Community measures in the fields of training and professional retraining can be developed accordingly,
 - c) evaluation of the implications of investment for employment,
 - d) support for achieving mobility of labour through, in part, the creation of jobs in sectors that offer development prospects such as data processing, avionics and automation: national investment and the various Community financing instruments should be directed to these areas and the necessary changes made in the educational and vocation training sectors,
 - e) implementation of the different ways of restructuring working time considered in the Council of Ministers' Resolution of 18 December 1979¹ particularly regarding flexible retirement which, among other things, may promote youth employment;

¹ See OJ No. C 2, 4.1.1980

9. Also considers that, in order to assist workers affected by restructuring in industrial sectors hit by crises or difficulties, it is absolutely essential that at the earliest possible opportunity the Commission should propose and the Council adopt - on the basis of Article 3 (3) of Regulation (EEC) No. 2396/71 as amended by Regulation (EEC) No. 2893/77¹ on the reform of the European Social Fund - the incorporation of new provisions into the Fund making finance available to:
- i. maintain the income of persons who have lost their employment, or have been put on short time, or temporarily laid off and who are awaiting training or employment,
 - ii. help to inform, guide and requalify persons seeking re-employment,
 - iii. promote employment in regions where the decline in the dominant activity creates a serious and prolonged imbalance in employment;
10. Strongly recommends that the Council adopt at the earliest possible opportunity the proposal for a regulation on Community aid for industrial restructuring and conversion operations², taking into account the opinion delivered by the European Parliament on the matter³: this firmly expressed commitment should set a precedent for combating European crises and difficulties with measures taken at Community level and in a spirit of Community solidarity;
11. Finally, enjoins the Commission to take account of the need to formulate and implement a comprehensive Community social and economic strategy that is able to combat effectively the serious problem of structural unemployment, which has reached extremely disturbing levels; states emphatically that, without such a strategy, the traditional instruments will be insufficient to remedy the adverse social effects of the restructuring of the automobile sector, which would then add to the persistent effects of a similar nature that have already become apparent following the restructuring of other sectors.

¹ See OJ No. L 337, 27.12.1977

² See OJ No. C 272, 16.1.1978

³ See OJ No. C. 127, 21.5.1979, page 52